

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCT PRICES
BILATERAL AGREEMENT BETWEEN UNITED STATES POSTAL
SERVICE AND ROYAL MAIL GROUP, LTD (MC2010-34)
NEGOTIATED SERVICE AGREEMENT

Docket No. CP2015-1

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**
(October 17, 2014)

The United States Postal Service hereby provides its responses to Chairman's Information Request No. 2, issued on October 15, 2014. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please confirm (or explain if you cannot confirm) that the revenue flow associated with the agreement presented in this docket is consistent with the revenue flow for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 agreements.

RESPONSE:

Confirmed. The Postal Service and Royal Mail will use settlement procedures similar to settlement procedures for other agreements that are included within the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators product, as set forth in the agreement that is the subject of this docket. For returned pieces originating in the United States and returning to the United Kingdom, Royal Mail would owe the Postal Service payment, subject to offset for returned pieces from the United Kingdom.

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2. Please confirm (or explain why you cannot confirm) that International Merchandise Return Service (IMRS) is not listed under Mail Classification Schedule (MCS) 2615 as an international ancillary service.

RESPONSE:

There is no reason to list IMRS in MCS section 2615 because it is not offered as a published rate product, or as a routine feature of international mail exchange. At this time, IMRS is only offered under negotiated service agreements with foreign postal operators.

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3. Please confirm (or explain why you cannot confirm) that the only reference to International Merchandise Return Service in the MCS is to a current market test.

RESPONSE:

Confirmed, but that market test pertains to the payment by USPS customers for returns from purchasers of items in Canada, Australia, or the United Kingdom. The service at issue in this proceeding concerns the return of items from purchasers in the United States to vendors in the United Kingdom.

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4. In Response of the United States Postal Service to Chairman's Information Request No. 1, October 6, 2014, question 1 (Response to CHIR No. 1), the Postal Service confirmed that its request in this docket is independent of the Royal Mail Group Inbound Air Parcel Post Agreement filed in Docket Nos. MC2009-24 and CP2009-28.
- a. Please confirm (or explain if you cannot confirm) that agreements approved for inclusion within the parent FPO 1 product to date, have not offered special service independent of a previous (or existing) agreement with the same foreign operator.
 - b. Please confirm (or explain if you cannot confirm) that the parcels eligible for IMRS in the instant agreement would not be the subject of a previous (or existing) Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 agreement with Royal Mail Group, Ltd.

RESPONSE:

- a. Confirmed.
- b. Confirmed; however, inbound Air Parcel shipments from the UK, which are subject to the separate Royal Mail Group Inbound Air Parcel Post Agreement classified in MCS section 2515.8 Inbound Air Parcel Post (at non-UPU rates), can be eligible for IMRS.

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5. In its Response to CHIR No. 1, question 4c, the Postal Service characterizes the service proposed to be offered in the agreement presented in this docket essentially as an ancillary service for inbound parcels originating in the United Kingdom to the United States. The Postal Service further asserts that this is explicitly contemplated in the existing classification language at section 2515.10.1.a, which provides “[s]uch agreements may also establish negotiated prices for services ancillary to such items and for customized competitive services developed for application solely in the context of the agreement.” The Response to CHIR No. 1, question 7 quotes the same excerpt. Please address the Postal Service's understanding of the reference to "such items" in the quoted excerpt.

RESPONSE:

In this context, the phrase “such items” refers to foreign origin items dispatched by foreign postal operators, including Inbound Air Parcel Post, Inbound Surface Parcel Post, Inbound Direct Entry, and/or Inbound EMS (Express Mail Service).

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6. In its Response to CHIR No. 1, question 7, the Postal Service offers MCS language "to the extent" the Commission considers explicit mention of IMRS necessary.
- a. Please confirm (or explain if you cannot confirm) that the MCS language the Postal Service proposes includes a reference to an international ancillary service that is not listed in the existing MCS.
 - b. Please address the appropriateness of referring to an international ancillary service that is not currently recognized in the MCS.
 - c. Please elaborate on why the referenced response seems to indicate that the Postal Service thinks no explicit mention of IMRS in the related MCS provision is necessary

RESPONSE:

- a. Confirmed. However, mention of IMRS elsewhere in the MCS is unnecessary as the IMRS service only exists in the context of negotiated service agreements with foreign postal operators.
- b. Such treatment is appropriate as section 2515.10.4 states that, "[t]he Postal Service may offer such optional features as may be mutually agreed with the relevant foreign postal operator." Thus, it seems perfectly appropriate to offer services that are not currently listed in the MCS section 2615. Both Royal Mail and the Postal Service have expressly agreed to implement this optional feature.
- c. The Postal Service is unaware of any requirement that ancillary services offered to foreign postal operators must be explicitly mentioned elsewhere in the MCS. Moreover, it should be noted that IMRS is a relatively new service, and it is entirely conceivable that bidirectional IMRS will be a feature of bilateral agreements with other postal operators. In the Postal Service's view, the goal of the exercise in classifying bilateral agreements is to evaluate the costs, revenues, and volumes of the revenue associated with negotiated rates for services. If the Commission were to consider IMRS to be a

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separate "product" simply because it flows in a reverse direction, then the Postal Service believes that such treatment would require separate filings for subsets of competitive flows within a bilateral, thereby increasing workload without any meaningful benefit to the classification structure. Consider, for example, a hypothetical bilateral which provides rates for inbound parcel services and also includes fees for special ancillary services for (a) forwarding within the US, (b) forwarding outside the US, and (c) return to sender. In the Postal Service's view, all such flows result in processing costs for the Postal Service and revenue received by the foreign postal operator for the provision of each service. In this sense, it seems quite logical and rational to consider all flows, including returns, as part of the same bilateral, rather than separating the flows into separate products simply based on the direction of each flow. The Postal Service accordingly urges the Commission to consider the need for simplicity and flexibility, as well as administrative economy, in evaluating the functional equivalence of the instrument at issue here.

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7. Please explain the Postal Service's views on the scope of the reference to ancillary services in the proposed modification of the description of Inbound Competitive Multi-Service Agreements with Foreign Postal Operators, such as whether the intent was to include any service that can be deemed ancillary; only a service that is formally recognized as an international ancillary service in the MCS; or some combination of these options.

RESPONSE:

Please see response to Question No. 6.

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8. If the Commission were to approve the agreement presented in this docket, the MCS entries for existing international ancillary services seem to offer templates for the Commission's approval of the addition of IMRS as an international ancillary service, adapted to the present circumstances. With this addition, the agreement presented in this docket could be included in the MCS as an IMRS negotiated service agreement.
 - a. Please address the Postal Service's views on the benefits and drawbacks of this approach.
 - b. Please provide suggested MCS language reflecting the approach discussed above

RESPONSE:

- a. Please see response to Question No. 6.
- b. The Postal Service does not believe that such language is necessary. However, for the Commission's benefit, the Postal Service offers the following alternative, which involves the creation of an additional MCS section 2515.11 Competitive Multi-Service Agreements with Foreign Operators, in which the agreement that is the subject of this docket could be included.

2515.11 Competitive Multi-Service Agreements with Foreign Postal Operators

2515.11.1 Description

- a. Competitive Multi-Service Agreements with Foreign Postal Operators provide prices for acceptance, transportation within the United States, and delivery of any combination of Inbound Air Parcel Post, Inbound Surface Parcel Post, Inbound Direct Entry, and/or Inbound EMS (Express Mail Service) tendered by foreign postal operators. These constituent services may include other services that the relevant foreign postal operator offers to its customers under differing terms, but that nevertheless are processed and delivered in a similar manner within the United States Postal Service's network. Such agreements may also establish negotiated prices for ancillary services for which revenue is received by the counterparty foreign postal operator, including, but not limited to, international merchandise return service.

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- b. Competitive Multi-Service Agreements with Foreign Postal Operators may set forth general operating terms and conditions, on-time delivery and scanning service performance targets and standards, specifications for mail product categories and formats, processes for indemnity, and shared transportation arrangements that modify the requirements generally applicable to the services covered by each agreement.
- c. Items tendered under Competitive Multi-Service Agreements with Foreign Postal Operators items are either sealed or not sealed against inspection, according to the general nature of each underlying service.

2515.11.2 Size and Weight Limitations

Size and weight requirements are the requirements for Inbound Air Parcel Post at UPU Rates, Inbound Surface Parcel Post (at UPU Rates), Inbound Direct Entry, and Inbound EMS (Express Mail Service), respectively, subject to any applicable country-specific modifications.

2515.11.3 Price Categories

The following price categories are available for the product specified in this section:

- Bilateral/Multilateral Agreements

2515.11.4 Optional Features

The Postal Service may offer such optional features as may be mutually agreed with the relevant foreign postal operator.

2515.11.5 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- Competitive Multi-Service Agreements with Foreign Postal Operators 1
Baseline Reference
Docket No. CP2015-1
PRC Order No. []
Included Agreements
Royal Mail Group Limited, expires []